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Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2017

Addendum

Opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control

Summary

In the opinion of the Director of the Office of Audit and Investigation Services, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was rated as *'some improvement needed'* – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

I. Opinion

1. The opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control is provided in accordance with Executive Board decision 2015/13 of June 2015.

2. In the opinion of the Director of the Office of Audit and Investigation Services (OAIS), based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was *'some improvement needed'* – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

II. UNFPA management responsibilities

3. UNFPA management is responsible for designing and maintaining the governance, risk management and internal control processes and ensuring that these operate effectively. The responsibility of OAIS is limited to independently assess the adequacy and effectiveness of these processes.

III. Criteria used for assessing the adequacy and effectiveness of the governance, risk management and internal control processes

4. OAIS utilized the 2013 internal control framework and the 2014 enterprise risk management integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission – adopted by UNFPA as the basis for its internal control framework and enterprise risk management process, respectively – as the main criteria for assessing the adequacy and effectiveness of the governance, risk management and internal control processes to provide reasonable assurance on the achievement of the UNFPA objectives in the following categories:

(a) *Strategy*: fulfilment of the UNFPA mandate and achievement of its strategic plan goals;

(b) *Operations*: effectiveness and efficiency of UNFPA operations, including (i) operational and financial performance goals; (ii) conformity of expenses with the purpose for which funds were allocated; and (iii) safeguarding of assets against loss;

(c) *Reporting*: reliability of UNFPA internal and external (i) financial reporting, and (ii) non-financial reporting; and

(d) *Compliance*: adherence to the UNFPA regulatory framework as established in its legislative mandate, rules, regulations, policies and procedures.

IV. Scope of audit work and additional sources of evidence considered for formulating the opinion

5. The opinion is based on (a) OAIS audits of field offices and of information and communications technology components; and to the extent relevant, (b) joint audits of joint United Nations activities, concluded between 1 January and 31 December 2017, as detailed in the Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2017 (DP/FPA/2018/6, sections IV and VI, and Annex 2).

6. All OAIS audits were conducted in accordance with the applicable policies by which it has to abide – the oversight policy, the financial rules and regulations, the staff rules and regulations, and the International Standards for the Professional Practice of Internal Auditing.[1]

7. To formulate its opinion, OAIS considered, as appropriate, other sources of evidence, including: (a) cumulative audit knowledge stemming from OAIS audits completed in previous years, as considered relevant; (b) outcome of the 2017 audit risk assessment, undertaken to support the development of the 2018 audit plan; (c) status of implementation of internal audit recommendations as at 31 December 2017; (d) systemic issues noted by investigations completed in 2017; (e) audit findings reported by the United Nations Board of Auditors in its management letter on the interim 2017 audit of UNFPA, dated 2 February 2018; (f) results of national execution audits commissioned by management and completed in 2017; (g) results of control self-assessments completed by numerous country and regional offices as well as certain headquarters business units in January 2018; (h) third-party assurance reports obtained by management regarding outsourced vendor management, and the hosting and management of the messaging and collaboration systems; and (i) results of the strategic and fraud risk assessments completed as part of the enterprise risk management process under implementation by management, to the extent available when preparing this opinion.

8. The audits and some additional sources of evidence considered for purposes of formulating the opinion refer to activities undertaken by UNFPA primarily in 2016 or in previous years, and the first quarter of 2017. Additional matters could have been identified that may have impacted the opinion had additional audit work been performed in 2017 and/or in previous years.

9. In 2017, as in previous years, UNFPA outsourced significant functions to other United Nations system organizations, including: (a) selected human resources management activities; (b) staff and service contract holder payroll preparation and payment; (c) payment processing; (d) treasury management; and (e) hosting and management of the enterprise resource planning system. UNFPA management relied on the management and fiduciary oversight activities undertaken by the organizations to which these functions were outsourced, as regards the adequacy and effectiveness of the related governance, risk management and internal control processes. These outsourced functions are not covered by the OAIS opinion.

10. In addition, UNFPA outsources numerous information and communications technology functions, including the hosting of significant systems (email, storage), to third-party service providers. UNFPA obtained third-party assurance reports on the adequacy and effectiveness of the governance, risk management and internal control processes related to firewall and vulnerability management, technology infrastructure maintenance and website hosting services. These, too, are not covered by the OAIS opinion.

V. Process followed for aggregating audit results and assessing issues

11. Results of the audits undertaken by OAIS and the additional evidence considered to formulate the opinion were aggregated by audit area and process, using the framework previously developed for the audit risk assessment and for reporting key findings of internal audit and investigation activities.

[1] Promulgated by the Institute of Internal Auditors (IIA).

12. The potential impact of the issues identified on the achievement of the relevant UNFPA objectives in the categories detailed in paragraph 4 above was assessed, taking in consideration: (a) the ratings assigned to the entities, processes, programmes and areas covered by the audits, weighted based on the value of audited expenses; (b) the nature and materiality of the issues identified, individually and in the aggregate; (c) the root causes and pervasiveness of the issues identified; (d) the risk profile, as determined, based on the outcome of the OAIS audit risk assessment, and the materiality of the processes affected; (e) the degree to which internal audit recommendations related to these processes had been implemented; and (f) the adequacy and effectiveness of compensating controls operating at headquarters or at the regional office level that could contribute to mitigating the impact of the issues found.

VI. Basis for the opinion formulated

13. OAIS assessed the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes as 'some improvement needed' – which means that these processes were adequately designed and operating effectively but needed some improvement to provide reasonable assurance on the achievement of objectives in the categories detailed in paragraph 4 above.

14. The key improvement areas leading to this opinion are described below:

A. Governance and risk management

Integrated control framework

15. The development of the comprehensive and integrated control framework needs to be finalized, covering all relevant governance, programme and operations management processes – including information and communications technology – and clearly outlining the key controls required to minimize risks identified for each process, the related implementation steps and the responsibility for operating them.

16. Once complete, such a framework will provide a useful tool to allow management to enhance awareness about, and training on, internal control requirements (supplementing the efforts already under way, such as a periodic control self-assessment survey); better enforce accountability for internal controls; and more promptly and effectively complete the planned review and update of the policies and procedures manual, under way at the time of developing the present opinion.

Enterprise risk management

17. Management continued to introduce changes to the enterprise risk management process in 2017, particularly in the functionality of the Strategic Information System module (*'myRisks'*) developed to document strategic and fraud risk assessments undertaken by field offices and headquarters units. Those changes focused on the risk response phase, which includes the review and analysis of all risk factors by the risk treatment working groups and the development of the global mitigation library containing standard mitigation action items for all identified risk factors.

18. The progress made so far is acknowledged. More is needed for the process to mature further, building on and enhancing the design and operating effectiveness of the corporate tools. This requires bridging the skill-set gaps that limit the relevance and effectiveness of assessments completed by business units. The activities planned in the area of capacity building, training and awareness raising should be fully implemented, including the preparation and implementation of a comprehensive ERM policy.

19. Enhancements to the process planned in 2018 are welcomed, including the use of a differentiated risk management approach for specific contexts or programmes; an automated risk rating based on probability and impact considerations; and a more stringent centralized quality assurance process.

Organizational structure and staffing

(i) Business unit capacity

20. In 2017, timeliness of approval and implementation of business unit organizational structure and personnel alignment reviews improved. Audits continued, nevertheless, to reveal individual cases of delays, significantly affecting business unit capacity and skill sets. The streamlining of the approval process should continue, and effective support should be provided to those business units undergoing realignment exercises in terms of change management, to ensure that capabilities remain aligned to programme delivery and operational needs.

(ii) Vacancies in key positions

21. Management continued to take action to lower the vacancy rates for key management positions. Audits continued, nevertheless, to reveal individual instances of offices delivering large and/or complex programmes, where key vacancies were not filled promptly – depriving these offices from key expertise or sustained leadership and/or oversight.

Headquarters and regional office support and oversight

22. Managerial oversight controls (i.e., "second line of defense") at headquarters and regional offices should continue to be strengthened – with clear terms of reference and guidelines regarding the nature, scope and frequency of management oversight, developing appropriate managerial reports and providing sufficient human and financial resources.

23. To minimize the risk arising from gaps in management leadership and oversight, headquarters and regional office support to, and oversight over, business units affected by prolonged vacancies should continue to be increased until the positions are filled.

B. Internal control

Programme management

(i) Programme planning and implementation

a. Results-based management

24. Comprehensive programme results and resource frameworks, supplementing country, regional and corporate programme documents should continue to be strengthened, in terms of: (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle.

25. These frameworks would allow a more effective planning and implementation of UNFPA programme activities and better tracking of progress towards achieving expected programme results. This would also complement the United Nations Development Assistance Framework or the United Nations Development Assistance Plan – results and resources matrices that are at a high level of aggregation.

26. Quality assurance at regional office level remain a challenge in some instances. Management put in place some intermediary measures, and indicated that it is considering mandating the use of new programme instruments, such as project or output documents, to help ensure more effective programme planning and implementation as well as tracking of programme results.

b. Workplan management

27. Workplan management continues to improve with the enhanced version of the global programming system, in particular, with the introduction of the electronic submission of funding authorization and certificate of expenditure (FACE) forms. Further improvements stem from the regular annual workplan reviews undertaken by the Programme Division; the division widely disseminates the results of the reviews and follows up with country and regional offices.

28. Process enhancements are still required, particularly regarding: (a) timeliness of workplan finalization and their level of details; (b) regular updating of the workplans, to reflect significant changes to planned activities, budgets or resources on an ongoing basis; (c) better rationalization and documentation of workplan budgets; and (d) better alignment of the signed workplans with those included in the global programming system workplan 'snapshots'.

29. The overall effectiveness of the workplan management process should be further strengthened, remedying deficiencies in the design of global programming application controls in the areas of: (a) segregation of duties between workplan development and maintenance processes; (b) workplan budget development and approval; and (c) workplan generation and approval.

c. Programme financial management controls

30. Programme financial management procedures and controls have improved in some areas and continue to require further strengthening, with a rigour similar to that currently applied over the institutional budget, including the development of detailed and supported workplan budgets: by expense category; periodic review of expenses incurred; and regular budget-to-actual reconciliations, by activity and expense category. Also, enhanced controls should be applied to ensure appropriate costing of funding proposals, project documents and workplans, to reflect all direct and indirect costs necessary to implement the related activities, and to address the cross-subsidization of core resources and programme activities funded from non-core resources.

31. The future integration of the Strategic Information System with the Global Programming System, as part of the ICT transformation, should be actively pursued to help address the points mentioned in (a) to (c) above.

d. Humanitarian response

32. Programme and operational bottlenecks persist in the area of humanitarian response activities; further enhancements are needed in this area. This includes the operationalization of the funding mechanisms mandated by the Executive Board to bridge funding shortfalls; access to flexible funding to sustain response efforts; and enhancing surge capability and alignment of human resource capacity, to ensure a more timely and effective delivery in humanitarian contexts.

(ii) National execution

a. Implementing partner capacity

33. Capacity assessments reviewed in 2017 continue to show the need for a better and more thorough documentation of the programmatic and financial management capacity of implementing partners, including their fraud prevention controls, particularly in humanitarian and fragile contexts – a matter also raised by the Board of Auditors. Future assessments should also reflect new requirements, for instance, on sexual exploitation and abuse of beneficiaries. Pro-active implementing-partner capacity-building measures need to be put into place and regularly followed up.

b. Financial monitoring of implementing partners

34. Financial monitoring of implementing partners, to ensure that funds provided are used for the intended purposes, in line with the approved workplans and budgets, is an area needing continuous attention.

35. The first full implementation year of the revised harmonized approach to cash transfers (HACT) framework was 2017. The scope and timing of OAIS audits finalized during 2017 provided coverage of spot-checks conducted early in the year. These results, combined with those of the Board of Auditors, show the need for further and continuous improvement of process and methodology, as well as enhancing both the capacity and skillsets of the personnel involved.

(iii) Supply-chain management

36. As mentioned in the past, increased support to programme countries, together with other relevant programme stakeholders, to address gaps in supply-chain management systems that may reduce availability of reproductive health commodities and originate stock-outs continue to be required. Receiving and inspection controls of incoming goods should be more consistently performed and documented. It also remains necessary to ensure regular monitoring of inventory of reproductive health commodities held by implementing partners, as well as tracking its timely distribution and availability at service delivery points.

37. Implementation of more effective and integrated supply-chain management organizational arrangements, processes and systems – from procurement to the 'last mile' – is a work-in-progress that needs to be completed in order to reap all the benefits from these improvements.

Operations management

(i) Human resources management

38. The management of personnel engaged under service contracts has improved, being more transparent and rigorous. Other activities, such as contract issuance, continue to be managed manually, and some level of deviation from the requirements of the 2014 policy on service contracts was noted on several occasions.

39. Progress was noted in the management of individual consultancy contracts through the development of a centralized registration tool, rolled out globally in 2017, albeit with limited integration with the ERP system. Contract award and consultancy fee calculation and payment continue to be managed manually, and some level of deviation from the requirements of the 2015 policy on individual consultants was observed.

40. Further, limited integration of the corporate and regional consultant rosters, for both service contracts and individual consultants, still require management attention.

(ii) Procurement

41. Procurement procedures are adequately designed and operate effectively for centralized procurement activities undertaken by the procurement services branch, which account for approximately half of total procurement at UNFPA. Instances of non-compliance with procurement procedures continued to be found on several occasions at country office level, particularly as regards tendering and contract award.

42. Second line of defense controls improved in 2017; these require further strengthening to address the risks originating from non-compliance with procurement procedures, as outlined paragraph 41 above, including the introduction of e-procurement at country level, expected as part of the ICT transformation

(iii) Financial management

43. Some instances of miscoded expenses in the account were identified. However, major improvements in the second line of defence controls implemented at headquarters level were noted, thus significantly mitigating the impact of this issue for financial reporting purposes.

44. To minimize the risks of transactions executed without appropriate management approval and potentially incurring expenses in excess of available financial resources, financial commitments should be reflected and approved in Atlas in a more timely manner, through issuance of requisitions or purchase orders prior to decisions to procure goods and services or reimburse expenses are communicated to vendors or implementing partners.

(iv) Information and communication technology

45. Major progress was noted with a number of initiatives and changes introduced as part of the ongoing ICT transformation project, in particular regarding the governance of information and communications technology, and resource management. When fully implemented in 2018, the module on strengthening the governance and execution of technology projects is expected to provide additional assurance over the design and functioning of controls in this area.